Market Commentary

For the week of May 23rd, 2022

The Markets

Returns Through 5/20/22	WTD	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials (TR)	-2.78	-13.29	-6.53	9.08	10.89
NASDAQ Composite (PR)	-3.77	-27.20	-15.54	14.75	14.35
S&P 500 (TR)	-3.00	-17.67	-4.86	13.04	12.38
Barclays US Agg Bond (TR)	0.59	-9.18	-8.11	0.34	1.18
MSCI EAFE (TR)	1.50	-14.43	-12.45	4.46	3.54

Observations

- U.S. equities turned in another volatile week with the S&P 500 giving up -3.00% and the tech-heavy NASDAQ retreating even further, down -3.77%.
- Surprisingly, small caps held up better, though still fell just over a percent (-1.05%).
- International stocks outperformed, the developed market index, MSCI EAFE, grew by +1.50%.
- An unexpected bright spot, Emerging market stocks bounced back strongly with MSCI EM gaining +3.13%.
- U.S. investment grade bonds were positive for the second week in a row with the Bloomberg Barclays U.S. Aggregate Bond index up +0.59%

Data Obtained from Bloomberg as of 5/20/2022

Economic Review

• April retail and food service sales rose 8.2% from a year earlier and a seasonally adjusted 0.9% from March, according to the U.S. Census Bureau. Those gains were in line with what economists projected.
• The Leading Economic Index (LEI) for April decreased -0.3% from the prior month.
  - The index is still up 4.7% from April of 2021

How does this impact you?
• Impact of Retail Sales and LEI
  - Despite volatile swings in risk assets, continued consumer spending, which accounts for 70% of domestic economic activity, suggests strong underlying fundamentals can support the real economy despite the collapse in financial markets.
    - Continued spending despite 40-year high inflation illustrates a resilient consumer capable of supporting economic activity.
  - LEI contracted in the last month primarily due to a drawdown in stock prices, an important input for the model.
    - However, the Conference Board projects the US economy will resume expansion in the second quarter following the first quarter's real GDP contraction.

A Look Forward

• Personal Consumption Expenditures (PCE) will be released on Friday and is expected to moderate to 6.2% from 6.6% on a year-over-year basis.
  - On a month-over-month basis, PCE is expected to increase 0.2%, much lower than the 0.9% increase seen last month.
• The final reading of the University of Michigan Consumer Sentiment Index for May will also be released on Friday and is expected to fall to 59.1 from 65.2 in April.

How does this impact you?
• Impact of Consumption & Sentiment o
  - A slowdown in PCE, the Federal Reserve's preferred price gauge, would further support the budding market view that peak inflation is already behind us.
    - Major moderations in PCE could lead the Fed to slow the rise in rates, though most market participants do not expect this in the near term – the central bank is committed to returning interest rates to neutral "expeditiously."
  - U.S. consumer sentiment slumped to its lowest level in nearly 11 years in early May as worries about inflation persisted.
    - However, consumer spending remains underpinned by a strong labor market and massive savings, which should keep the domestic economy expanding.

BY THE NUMBERS

DOWN FOR THE YEAR – After 20 weeks of calendar year 2022, the S&P 500 is down 17.7% YTD (total return) through the close of trading last Friday 5/20/2022. The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value (source: BTN Research).

NEAR-BEAR SIGHTING – The S&P 500 closed at 3901 last Friday 5/20/2022, down 18.7% from its all-time closing high of 4797 set on 1/03/2022. The S&P 500 has closed at least 20% below a previous closing high 6 times in the last 50 years, i.e., since 1972. The most recent "bear" was a 33-day tumble of 33.9% that bottomed on 3/23/2020 or 26 months ago in the early days of the pandemic (source: BTN Research).

STOCKS AND RATE HIKES – Between 12/16/2015 and 12/19/2018, the Fed raised interest rates 9 times. Each rate hike was 0.25 percentage points, a total increase of 2.25 percentage points. That took the Fed's target short-term rate from 0% to 2.25%. From the close of trading on 12/16/2015 to the close of trading on 12/19/2018, the S&P 500 gained +28.6% (total return) over the 3-years, or +8.7% per year (source: BTN Research).

BIG JUMP – The yield on the 10-year T-note has increased 1.29 percentage points from 12/31/2021 (1.50%) to Friday's close 5/20/2022 (2.79%). The yield on the 10-year T-note has increased at least 1.29 percentage points over the course of 8 calendar years in the last 50 years, most recently in 2009 (source: Treasury Department).

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